HMRC - STSM107120 - Fund Supermarkets - Stamp Duty Reserve Tax Implications

As investors have the availability to place a single order on-line with a fund supermarket to buy and/or sell units in one or more unit trusts or shares in an Open-Ended Investment Company (OEIC), the fund supermarket will generally provide each respective fund manager on a typical daily/weekly basis (in accordance with the terms of the fund supermarket) with either:

a separate gross instruction to buy or sell units/OEIC shares per each client instruction; or

a single instruction to buy an aggregated total number of units/OEIC shares (on behalf of two or more investors) and a single instruction representing an aggregated total number of units/OEIC shares to be surrendered on behalf of various unit or OEIC shareholders.

In either situation, a manager of the relevant unit trust or OEIC is required to include each gross, or aggregated, buy and sell instruction received from a fund supermarket in his monthly computation of Stamp Duty Reserve Tax (SDRT) liability under FA99/SCH19.

Net dealing by a fund supermarket

While units and OEIC shares that are purchased by a fund supermarket directly from unit trusts and OEICS are held in the legal name of the fund supermarket (or its nominee) on behalf of the beneficial unit/share holders, the terms of the fund supermarket may permit it to effectively net buy and sell investor instructions in a specific unit trust or OEIC. This can result in a single ‘net’ buy or sell instruction being sent by the supermarket to an underlying fund manager (or, indeed, no net instruction being sent where the total quantity of units/OEIC shares purchased equates to the total quantity of units/OEIC shares sold i.e. surrendered, during the same period).

Such netting may lead, however, to an incorrect notice and payment of SDRT by the underlying fund manager for FA99/SCH19 charging purposes.

For example, a fund supermarket holds, as legal owner, 10,000 units in the ABC unit trust fund on behalf of unit holder A valued at £10,000. Investor B places an on-line instruction with the fund supermarket to purchase 12,000 units in the ABC fund for £12,000 consideration. On the same day, unit holder A gives instruction to sell/surrender his interest in all 10,000 units.

The fund supermarket decides to off-set/net the respective 10,000 units to be surrendered with 12,000 units to be purchased, by placing a single instruction to the fund manager of the ABC trust fund to purchase 2,000 further units for £2,000. Investor B is subsequently informed that the fund supermarket is holding 12,000 units on his behalf and unit holder A is advised that his account has been credited with £10,000.

While a FA99/SCH19 SDRT charge arises on the value of 10,000 units surrendered, the ABC trust fund manager is only instructed by the fund supermarket to include 2,000 units issued in his monthly computation of SDRT.

In this situation, where a fund supermarket undertakes netting of units/OEIC shares that are surrendered and purchased this can, dependent on the individual circumstances, give rise to two further principal SDRT charges under FA86/S87 in addition to the 2,000 purchased units notified to the fund manager for FA99/SCH19 purposes as follows:

a SDRT charge (FA86/S87) on an agreement to transfer 10,000 units from unit holder A to the fund supermarket in consideration of £10,000, and

a SDRT charge (FA86/S87) on the subsequent agreement to transfer the same 10,000 registered units in consideration of £10,000 from the fund supermarket to investor B.

See STSM101030 for the meaning of an authorised unit trust.

See STSM101050 for the meaning of an Open-Ended Investment Company.

See STSM107110 for the meaning of a fund supermarket.

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